CHAPTER 17

GOVERNMENT & HOUSING

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"Is it the responsibility of the state and county government to make housing affordable?"

Didn't we already talk about this in the first volume of *The Price of Paradise*? Isn't this "déjà vu all over again," as Yogi Berra is often quoted? Actually, there are a few more things to be said—some of them might even be considered radical.

Whether you would *really* welcome a solution to the affordable housing problem depends on your point of view:

• If you are a parent, worried your children won't be able to buy a home in Hawai'i—say yes.

• If you are in business and find it difficult to recruit employees from the mainland because of high housing costs—say yes.

• If you are living like a gypsy, moving from one beach campground to another, because that is the only housing you can find—say YES!

• If you are an environmentalist concerned that Hawai'i's population is increasing too fast—say no.

• If you are a bureaucrat whose job depends on imposing red tape on private housing developers—say no.

• If you are a homeowner, afraid the value of your house will drop and your equity disappear—say NO!

Affordable housing in Hawai'i will solve problems for some people but create new problems for others. We'll get into how government could solve the housing problem, but first, a little background.

Reasons for unaffordability. Housing in Hawai'i has become less and less affordable for many reasons:

• A lot of people want to move to Hawai'i. This keeps the demand for housing up. High demand leads to high prices.

• Housing that could be used by regular residents sometimes is used for vacation rentals. This competition drives up prices.

• There is a scarcity of zoned urban land with suitable infrastructure (i.e., electricity, water, sewer, roads). Scarcity of land means higher prices.

• Labor and transportation costs for materials add to the production cost of housing. These costs are particularly high in Hawai'i.

• Hawai'i's unusually high excise and other business taxes are passed on to the consumer in the form of higher prices.

• It takes an incredibly long time and is ridiculously complicated to reclassify or rezone land for housing. This increases the carrying costs of land and adds the cost of otherwise unnecessary lawyers, accountants, and consultants.

• Government has not been paying its fair share for sewers and other infrastructure costs. It has imposed too much of these costs on home purchasers.

• Politicians frequently use legal blackmail to get developers to pay costs unrelated to their housing projects. These costs include tickets to political fund-raisers.

As this list makes clear, government and politicians currently are part of the *problem*. If we are to ever have affordable housing in Hawai'i, they must be part of the *solution*.

Possible actions. Government could revamp the system. Presently, landowners who are lucky enough to have undeveloped zoned land reap windfall profits. They are able to sell land to builders at artificially high prices. As indicated earlier, government then gouges home builders with excessive costs and expensive delays.

Some costs might drop if county governments had sufficient tax revenue to carry out their normal responsibilities. However, because our county governments don't have an adequate tax base, they shift more and more costs to private housing developers. State government,

"WE'VE FOUND THE SNAG..."

on the other hand, with too much tax revenue, has experimented with a wide variety of spending programs, many of which don't seem to be essential to the general welfare of our community. Any solution to the affordable housing problem must deal with the misallocation of tax revenue between the state and counties.

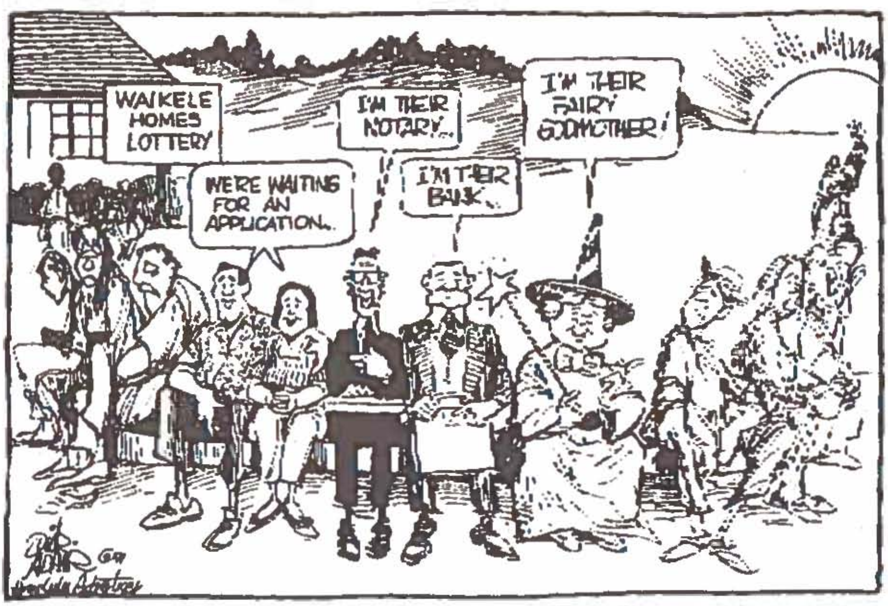
Government could zone land for housing development, reduce the time required to get building permits, provide more infrastructure, increase density, and reduce unnecessary building code provisions. It could also provide targeted subsidies, tax incentives to first-time buyers, and financing programs.

Another approach, seldom considered by policymakers, is to dampen demand. Demand for housing in Hawai'i comes from users (owner-occupants and renters) and nonusers (nonresident investors and speculators). Nonresident speculators create a burden on all resident taxpayers. They often buy houses that either remain empty or are used as illegal transient rental units. In both cases, these homes are no longer available to local residents. A solution is to raise property taxes and provide a tax credit to rebate the increase to people filing state income tax forms. We would benefit in three ways:

1. County tax revenues would increase, making it possible to fund new sewer treatment plants, mass transit, and other infrastructure. State tax revenues would decline, requiring the state to stop providing services that are the proper role of the counties.

2. Nonresidents who do not pay state income taxes (in some cases illegally) would pay more property taxes. This would deny them the free ride they have been enjoying and make them pay the real costs of the services their properties have been receiving.

3. The higher cost of operation to speculators not receiving tax credits would lower the value of their houses to them. This would cause many, if not most, to sell their houses to local users at reduced prices.



It might also be useful to tax people who speculate in zoned urban land—people who, as mentioned earlier, have been making windfall profits. A higher tax could be imposed on land that has not been developed within five years of being rezoned. In fact, consideration should be given to taxing the entire increase in value created by new zoning or by improvement of roads.

Another way to lower the cost of housing is to impose rent controls. But, unlike the first proposal, which shifts costs to nonresident speculators, rent controls would be likely to harm everybody except some renters in the short run and the bureaucrats employed to administer the rent control system. Rent controls can work in the short run as an emergency measure, but they create serious economic problems if left in place too long. Honolulu experimented with rent controls after World War II and dropped these controls in the early 1960s (much to the relief of nearly everyone).

Government could build or encourage more specialized housing. For example, the University of Hawai'i should be encouraged to build more student dorms and rental housing for faculty. The military should be encouraged to continue building more military housing. Government could build more housing for those of retirement age. Our *kupuna* should have the option of moving out of large single-family houses into smaller units designed to meet their special needs.

Hawaiian homelands should be distributed immediately and native Hawaiians given development grants to build their own homes. Much of the demand for housing could be satisfied simply by empowering native Hawaiians to control their own land.

Implications. When weighing the pros and cons of various solutions to the affordable housing crisis in Hawai'i, it is interesting to consider what would have happened if housing production and population size had continued to grow at the rates experienced in the 1970s. Toward the end of 1993, we would have had approximately 62,000 additional housing units and another 160,000 people driving 110,000 motor vehicles. These additional people would be adding to our traffic congestion and putting pressure on our water supply, sewers, schools, and other social services.

Who would be the newcomers to Hawai'i? Obviously, the state's low unemployment rate would attract those looking for jobs and raising families. There would also be three specific groups who'd find Hawai'i especially attractive:

1. Individuals of retirement age. Hawai'i's healthful climate and natural beauty make it attractive to retirees. Many of these individuals rely on pensions, which Hawai'i does not tax. They probably would be very nice people, but they would require extensive social services and place extra demands on the state's health care and social welfare system.

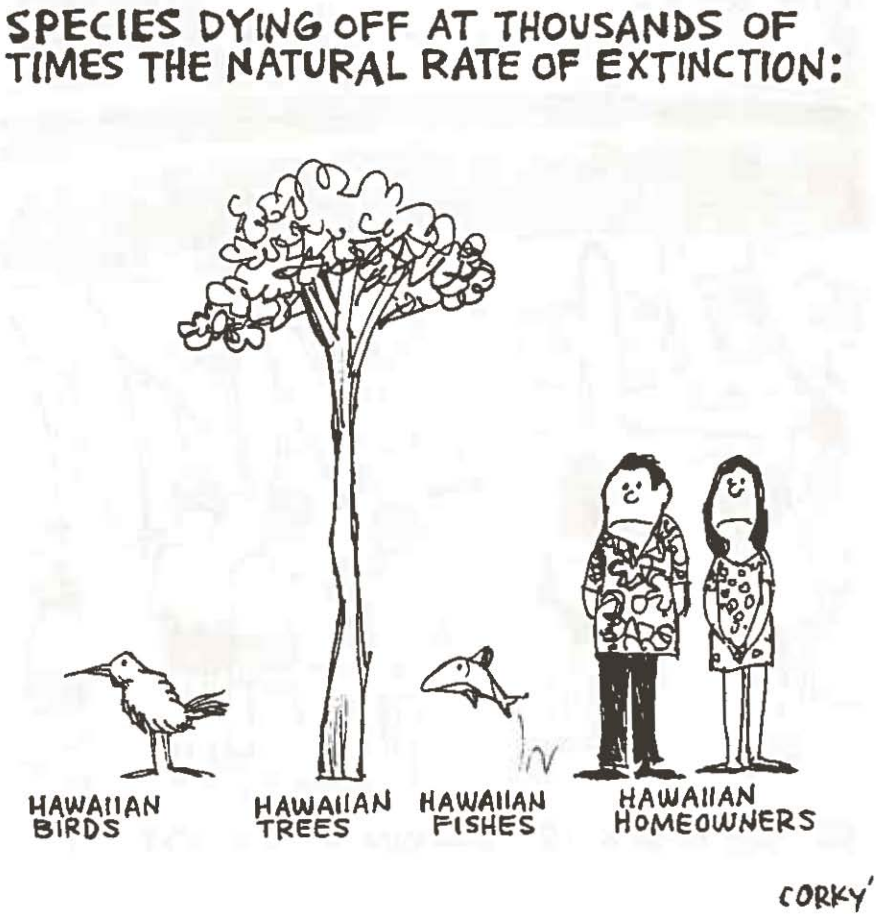
2. Transient workers of college age who would move to the state to surf and work in restaurants and hotels. Some of these people would work only as long as it took to qualify for unemployment benefits. Then they would arrange to be dismissed from their jobs. Fun in the sun would continue until their unemployment benefits ran out; then new jobs would be found to restart the cycle.

3. Young adults who would be returning home to Hawai'i after completing their college education on the mainland. It has been estimated that we lose up to 75 percent of these young adults. They leave for higher education, with a goal of returning, but they stay away because Hawai'i lacks affordable housing and high-paying job opportunities.

Mixed blessing. In other words, affordable housing would be a mixed blessing. The probable consequences would be a larger population, greater pressures on our physical infrastructure and social services, an increase in state and county taxes, and a decline in the quality of life for the middle and upper classes.

For those who currently are poor and homeless or under-housed, quality of life would improve. Our children would be more likely to settle in Hawai'i, and businesses would probably be able to attract and retain better-trained employees.

Should government get serious about solving the affordable housing problem? If you're middle or upper class, without children, and already own your own home, just say no. If you're just about anybody else, say YES! If your elected officials don't agree with you, just say NO! when they come up for reelection.


SPECIES DYING OFF AT THOUSANDS OF TIMES THE NATURAL RATE OF EXTINCTION:
HAWAIIAN BIRDS
HAWAIIAN TREES
HAWAIIAN FISHES
HAWAIIAN HOMEOWNERS
CORKY

BATTLE LINES ARE DRAWN AT SANDY'S...